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SUBJECT: HCMC ECONOMIC LEADERS REPORT 2004 PROGRESS, LISTEN TO FOREIGN INVESTOR COMPLAINTS

1. (SBU) SUMMARY: Ho Chi Minh City (HCMC) government leaders for the third straight year reported to the foreign business community on the city's annual progress in achieving economic and development goals. The leaders then listened as their audience articulated difficulties foreign businesses experience operating in Vietnam. Growth, trade and investment statistics illustrate HCMC's position as Vietnam's economic powerhouse. Yet infrastructure and legal reform - two areas where HCMC leaders cited achievements since 2003 - remain a focus of business frustration. The willingness of local leaders to openly report on strong and weak points, and to accept public criticism, demonstrates a transparency reflecting the reform viewpoint of the officials who led the meeting. END SUMMARY.

HCMC CONTINUES TO ACT AS VIETNAM'S ECONOMIC ENGINE

2. (U) Top officials from Ho Chi Minh City's government met December 17 with representatives of foreign business to present statistics on growth, trade and investment in the region during 2004 and to listen to foreign investor concerns. According to Mr. Luong Van Ly, deputy director of HCMC's Department of Planning and Investment (DPI), HCMC's gross domestic product (GDP) grew by 11.5 percent in 2004, driven mainly by industry, which grew by 15.1 percent. Total investment in HCMC reached \$2.5 billion, Ly reported, and GDP per capita reached \$1,800, a growth of 7.5 percent since 2003. (NOTE: According to the Asian Development Bank, GDP per capita for all of Vietnam in 2003 was \$478. END NOTE.) HCMC recorded export turnover of \$9.5 billion, most of it coming from domestic export enterprises. HCMC registered 8,510 new domestic enterprises in 2004, with total capital of close to \$1 billion.

3. (U) Mr. Truong Trong Nghia, vice president of HCMC's Investment and Trade Promotion Center (ITPC), discussed the contributions of HCMC and the southern economic zone (which includes HCMC and 6 neighboring provinces) to Vietnam's economy. While HCMC alone accounted for more than 18 percent of Vietnam's GDP, the southern economic zone accounted for 36 percent of the nation's GDP. HCMC also accounts for 35.5 percent of Vietnam's exports and 26 percent of its foreign direct investment (FDI). While HCMC's exports totaled \$9.5 billion, its imports reached \$5.1 billion, an increase of 16.8 percent from 2003. The U.S. remained HCMC's main export market in 2004, accounting for 24.5 percent of exports. Hong Kong recorded the most FDI in HCMC in 2004 at \$62.6 million. Singapore, Korea, Japan and the U.S. followed with FDI at \$61.4, \$50.4, \$28.5, and \$18.9 million respectively.

AREAS FOR IMPROVEMENT

4. (U) Following the recitation of 2004 statistics, the HCMC leaders presented the main frustrations articulated by foreign business in 2003 and what remedies HCMC had taken in 2004. DPI's Luong Van Ly reported that business complaints in 2003 had focused on four areas: infrastructure, human resources, laws and regulations, and support to investors. According to Ly, subsequent progress in these areas had included improved bus service, reduced telecom fees, an increase in the number of students receiving management training, a new decree that specifies both what documents an investor needs for a license and how HCMC departments coordinate licensing, and more information on government policies available online. HCMC leaders acknowledged that further progress was still needed on bridges over the Saigon River, a subway system, zoning and transparency.

5. (U) In response, expatriate business leaders seized on the deficiencies acknowledged by the local officials, harshly criticizing the lack of a coherent zoning plan for land use, for example, and citing this as a key deterrent to investment in the area. People's Committee Vice Chairman Nguyen Huu Tin responded that city officials were working on a comprehensive zoning plan that they hoped to unveil in 2005. Other criticisms from business focused on labor regulations, tax and accounting rules, opaque law-making and limits on cargo transport in the city.

COMMENT

6. (SBU) This reporting and feedback session was extremely useful, both for measuring Ho Chi Minh City's economic progress and for taking the pulse of the business community. While the HCMC leadership provided initial explanations in response to business complaints, Vice Chairman Tin concluded the meeting by promising

that the government would work to address investor concerns in the coming year. The frank and candid discussion demonstrated the commitment to reform and transparency of local leaders, particularly Vice Chairman Tin, DPI's Mr. Ly, and ITPC's Mr. Nghia. The latter two officials have extensive expertise stemming from their education in Europe and the United States, respectively - a background clearly reflected in their organization of this meeting.

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